



152

153



Electrifying progress

The recent Lloyd's acquisition notwithstanding, Havells has undergone quite an impressive transformation. Will its strategy and current momentum, prevail going forward?

Himanshu Kakkar

“ We now cater to 76% of the socket needs of a home. The idea is to get even deeper into homes

—ANIL RAI GUPTA, chairman, Havells



154

It's not a phrase you will find on Google (we checked). But "socket needs of a home" is what Anil Rai Gupta says his company's products fulfil and it's a very apt descriptor. "We now cater to 76% of the socket needs of a home. The idea is to get even deeper into homes," says the chairman and MD of Havells, one of India's largest electrical equipment manufacturers. It's a process that started a decade and a half



Starting with water heaters, irons and juicers, Havells has been adding products to the small domestic appliances category regularly, including air purifiers, coffee makers and air fryers

market. Two, coupled with the divesting last year (sold 80% in December 2015, 20% this year) of global lighting major Sylvania (which it had acquired in March 2007 and turned around through the economic turmoil of 2008), it signals clearly that Havells has shunned its global ambition and is now focusing on India. “We have realised that India is a great market for the next 20-30 years and we would rather use our bandwidth here,” confirms Gupta. It has been quite a transformation but can this change in strategy help it maintain the same momentum going forward?

WAXING SECTORAL

Even after the start of the new millennium, all that Havells sold was hidden behind walls (cables) or tucked away in dusty corners of commercial and residential buildings (switchgears); the end-customer almost never bought the company’s products themselves. “Our connect with the customer was through intermediaries until 2004,” recalls Gupta. The intermediary he refers to here is, of course, the electrician.

Now, Havells operates across 18 categories but it all started with a fan. In 2002, the company decided to look beyond cables and switchgears and, around the same time, dealers would

ago when the Noida-based company, which had a humble beginning in the 1970s as a cable and switch-gear maker, decided to transform into a consumer durables player. Over the next 10-12 years, Havells added switches and its portfolio now includes fans, lighting, home and kitchen appliances, personal grooming gadgets and, follow-

ing the May 2017 acquisition of Lloyd’s consumer durables business, even large appliances such as air-conditioners, LED TVs and washing machines.

The Lloyd’s acquisition is striking for two reasons. One, it demonstrates Havells’ intent to become a significant player across all sections of the consumer durables

ask the company why it didn't sell fans. That seemed like a good category to start with and Havells did a dipstick study to gauge the brand's appeal. Company executive president Rajiv Goel recalls the results. "It was a pleasant surprise to find out that customers were well aware of Havells because of our other quality products." He adds that one of the biggest challenges in launching a category is distribution and getting dealers to stock your products. "But that was resolved as dealers themselves gave us ideas and were keen [to sell our fans]."

The category was frozen; the existing channel appeared a fit. The defining input, though, came from Qimat Rai Gupta, founder and then-chairman of Havells. Rajesh Gupta, director (finance) and group CFO, Havells and a 33-year veteran of the company, recalls, "Fans were a commodity then.

Success in its first two consumer-facing ventures gave Havells the confidence to expand further into small domestic appliances

Our chairman said, 'We will enter the fan market at the premium end. We will not participate in the economy segment.'" That premium positioning would define the company's strategy for all future launches and, looking back now, it was a very wise decision, believes Rajesh Gupta. Havells now sells only premium fans and has a 15% share of the ₹6,900-crore fan market (60% of which is unorganised). "Today our per fan realisation is ₹150 more than competition. It's a direct result of that step," he adds.

It was during this period that Havells also introduced CFL light bulbs. It was a new and pricey category but the division brought in ₹5.5 crore in the first six months

of operations itself, justifying the product launch. In the past four or five years, CFL has been giving way to LED and Havells quickly took on the newer lighting category. It now sells both kinds of light bulbs, but since LED is expensive, its adoption is a slow process. Its entire lighting range is manufactured locally at Neemrana, Rajasthan.

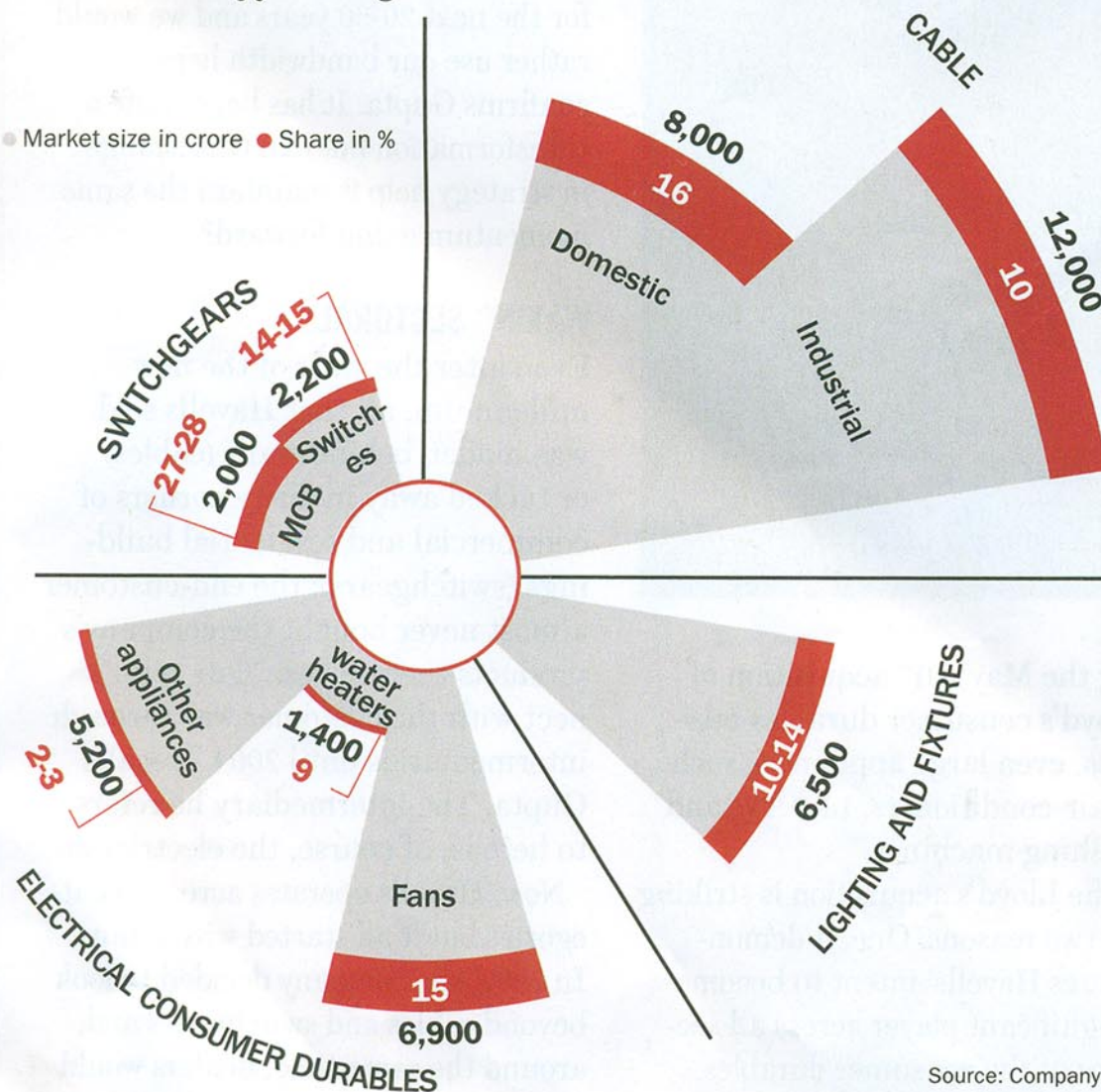
Success in its first two consumer-facing ventures gave the company confidence to expand further, into small domestic appliances (SDA), post 2011-12. Starting with water heaters, irons and juicers, it has been adding products to this category regularly, including air purifiers, coffee makers and air fryers. Electrical consumer durables (ECD) now contributes ₹1,500 crore to the bottomline and, along with lighting, contributes 38% to overall revenue (see: *Fanning out*).

How does Havells decide on a new product category? Anil Rai Gupta has a four-fold formula: it has to be a brand fit, channel fit, technology fit and manufacturing fit. "We have to check the consumer standpoint, whether they see this category coming from Havells — for instance, they will not expect us to make steel. Then, we have to see whether at least part, if not all, of our existing channels can sell that product," he says. Realising the existence of a crockery channel — that crockery sellers also often retailed kitchen and home appliances — Havells places its products there. The technology and manufacturing fit are self-explanatory — does the company have the technology or can it create or acquire what is necessary; and whether Havells has the ability to manufacture products in-house.

A separate team is created for each new category or product

Fanning out

Cables and switchgears continue to hold court in terms of market share, with ECD steadily following suit



Source: Company

and the extent of competition is mapped. "We like to be in the top three in each of the categories we enter, in a period of four to five years. We avoid categories where there is no opportunity for new players or where penetration is already high," Gupta adds.

The positioning, as already noted, is always premium. Recent launches such as cold press juicers and hair trimmers fit into this slot easily, since they cater to a select audience. Havells' next possible SDA launch — electrical baby/child grooming products — will also be in a niche category with few meaningful players.

Currently, Havells is importing its juicers, with investment in manufacturing to be made only when demand scales up. That's the usual strategy for any new launch — for instance, the company imported water heaters for four to five years before beginning manufacturing here in 2015; it followed a similar timeline with CFL and fans. Anil Rai Gupta believes Havells' manufacturing abilities set it apart: the company has 12 manufacturing facilities across the country. "We manufacture 95% of our products whereas competitors are at 0-50%. Our philosophy is to manufacture ourselves once there is critical mass," he claims.

Launching trimmers reveals Havells' textbook strategy of picking a product, advertising heavily and manufacturing once volume builds up

Juicers, though, may perhaps never be a volume game. Competitor Usha International, which claims to have launched the first cold press juicer in India in April 2016 accepts that reality. "We didn't enter this category for volume. Globally, consumers are moving towards cold press juicers and there can be early-mover advantage for us in In-

dia," says Dinesh Chhabra, CEO, Usha International. The personal grooming products market, though, is different. Estimated at ₹1,500 crore currently, the market is growing at 25-30% annually. "We believe it has good growth potential," say Gupta. That thought is echoed by Ankit Soni, analyst at Karvy who tracks Havells. "Apart from Philips, there are no other organised players with meaningful presence in electric personal grooming. So, Havells can get good traction in the market," he points out. The decision to launch trimmers is a textbook example of Havells'



"Today, we spend ₹250 crore on advertising. There is a direct rub-off of brand building on even commoditised categories"

—**RAJESH GUPTA**
Director (finance) & group CFO, Havells



"Riding on ad campaigns, Havells has successfully created a pull at the customer end, which helps the company in all categories it enters"

—**RAJEEV KARWAL**
CEO, Milagrow

product is electrical, the market is growing fast, there are only one or two meaningful players, and our brand already has resonance with the youth. Everything fit together."

BRAND BUILDING

Adopting a premium positioning and using the existing dealer network was only half the story. When it launched fans, Havells initiated its brand-building strategy. "We started high-decibel campaigns around that time to increase brand awareness," says Anil Rai Gupta. From 2005, Havells started advertising during cricket matches, an expensive proposition; it associated with IPL from 2008 and later switched to ad campaigns with social messages.

Rajesh Gupta says Havells' marketing/ad budgets were unheard of in the industry at the time. "In 2005-06, we spent ₹40 crore on advertising; in 2007-08, the figure doubled to ₹80 crore, and today it is ₹250 crore. There is a direct rub-off of brand building on even a commoditised category such as cables. Finolex's margins are in the range of 12-16% and ours at 18-20% in the same business." Finolex started television advertising only a couple of years ago and is at par currently with Have-

lls in a ₹8,000-crore domestic cable market dominated by Polycab.

While the earliest ads were regular promotions in the electricals space, Havells really captured viewers' attention with its campaigns that used humour (the Shock Laga ad for circuit breakers) or emotion to get the message across — the *Hawa Badlegi* campaign showed young people breaking away from orthodox ideas.

Consumer electronics industry veterans concede that focusing on advertising was a masterstroke. Says Rajeev Karwal, CEO of Milagrow, who helped set up LG in India in the late 1990s, "Brand building has been Havells' greatest strength. It has successfully created a pull at the customer end, riding on ad campaigns. The pull helps the company in all the categories it enters."

An existing dealer network is also a huge advantage — customers who were buying Havells' cables, fans and lights from electrical shops would also buy irons, water heaters and juicers, went the reasoning. "If you are putting products in the existing channel, it is a win-win both for the distributor and company. You obviously have more margins as the same dealer sells more products," says Rajiv Goel, executive president, Havells.

Currently, Havells has 7,500 direct dealers and over 100,000 retailers. In FY17, the company added over 1,700 dealers. Rajesh Gupta points out that most of the company's dealers are small players, which is why Havells started channel financing in 2006. "It has helped the company gain great dealer confidence," he adds. Karvy's Soni agrees. "Havells is known to give good margins to dealers. So, it is a brand-consumer push model. The brand is known and dealers push Havells products."

In addition to channel finance, Havells has also been investing at

the retail end with Havells Galaxy outlets. These are exclusive stores where the company invests in branding and interiors. Currently, there are 415 such stores across the country that together contribute 14-15% to revenue. "We have got multiple products now. But electrical stores are so messy, customers are often not aware of the width of our portfolio. We realised that in such a scenario, customers can only get what they want, not what we have to offer," Goel explains the rationale for launching branded retail stores.

WHAT'S IN STORE

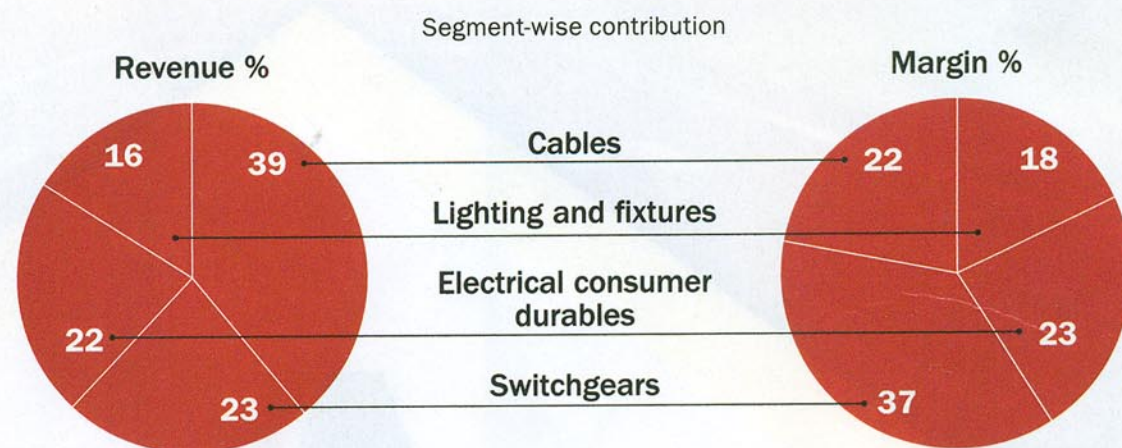
Where does Havells go from here? Currently, the parent company plus

demand for its bread-and-butter products. Currently, cables and switchgears continue to contribute over 60% to the bottomline, although the share comes down to half when Lloyd's revenue is added to Havells', with consumer durables and lighting making up the remainder. Says Karvy's Soni, "Havells has performed in all the segments at a very good pace, despite demonetisation. Majorly, the growth has been from ECD segment which has grown at 24%."

Most consumer electronics players are optimistic about the industry's prospects. Says Usha International's Chhabra, "The realty sector hasn't done well in the past

Switching gears

Cables may be the highest revenue generator, but switchgears have been more profitable for Havells even as it is looking beyond both



Lloyd (the latest acquisition) brings in around ₹9,000 crore of topline; the aim is to more than double that to ₹20,000 crore in the next four or five years. How doable is that? In FY17, Havells clocked revenue of ₹6,135 crore, up 14% over the previous year, while profit climbed 9.7% to ₹596 crore from FY16's ₹509 crore (see: *Switching gears*).

Achieving the management's ₹20,000 crore target, though, is dependent on several factors: how well it is able to leverage the potential synergies between Havells and Lloyd; managing Lloyd's low margins and tough competitors; and the slowdown in the realty sector, which has restricted

four or five years but it will gradually come back. That has meant a low growth rate; otherwise the consumer electronics industry does a growth of 1-1.5x GDP." Gupta is equally upbeat. "We are very bullish about all categories. We believe India is ready for take-off. There is a focus on quality electricals as well as on affordable housing, and we believe every business of ours is suited for both. Hence, we are bullish about everything," he says.

"Everything" includes the Lloyd's acquisition — but not everyone is as positive about that as Gupta. In May 2017, Havells paid ₹1,600 crore to take over the ₹2,000-crore consumer durables division of



“The realty sector not doing well means low growth rate; otherwise the consumer electronics industry does a growth of 1-1.5x GDP

—DINESH CHHABRA
CEO, Usha International



“If you are putting products in the existing channel, it is a win-win both for the distributor and the company. You obviously have more margins

—RAJIV GOEL
Executive president, Havells

Lloyd. For the company, it seems a natural fit — Havells has been considering entering the air conditioner business for over ten years and now that it established itself in the SDA space, the next logical step is getting into large domestic appliances. On a standalone basis, Lloyd enjoys 11-12% market share in the home air-conditioner market in India; that accounts for ₹1,350 crore of revenue, with LED TVs and washing machines contributing ₹400 crore and ₹150 crore respectively. “We realised our network cannot sell and service large ACs. So, if we launch our own brand, it will take a long time to get established. But the market continues to be attractive and if I can’t do something myself, I buy,” says Anil Rai Gupta. In the past, too, Havells has acquired companies such as Sylvania for lighting technology, premium switch maker Crabtree and Standard Electricals for switches, fuses and fans.

Analysts and observers, though, raise several concerns. For one, the highly competitive nature of the AC market in India, where MNCs such as LG, Samsung, Daikin and Hitachi as well as big Indian players such as Voltas dominate. Lloyd’s distribution is restricted to 10,000 direct and indirect dealers, compared with, for

instance, 20,000+ for LG. Analysts also point to the margin gap between Havells and Lloyd. “Havells is a mass premium brand providing innovative and premium products at affordable prices, with 15-16% Ebitda margins. It went on to acquire Lloyd’s consumer business churning 6-7% Ebitda margin, which should impact Havells overall margin. Also Lloyd

Now that it has established itself in the small domestic appliances space, the next logical step for Havells is getting into large domestic appliances

is in the evolution phase and an advertisement-focused company, like Havells. There will be higher expenditure on brand building and promotion resulting in a bit of contraction of margins,” says Soni.

Then, as Milagrow’s Karwal points out, “Lloyd has been a price warrior whereas Havells, by nature, doesn’t discount much.” Havells’ decision to not merge the two entities is also being questioned. “They will have to integrate the two brands to something like Havells Lloyd, if synergies are to be realised,” he adds.

Anil Rai Gupta, though, is unfazed by such remarks. He points out that it would have been very tough for Havells to break into

the LDA market on its own, given that its dealers are essentially small electrical stores that can’t stock or service big products such as air-conditioners or televisions. That made acquisition of an existing asset essential. “Lloyd is in a great position in the AC market and we can build on its brand and distribution channel,” he says. Indeed, Gupta and his team have counter-arguments for every criticism raised against the Lloyd deal. Lloyd’s margins are low currently, he says, because the company has been investing heavily in brand building and distribution for the past few years; the industry itself has double-digit margins and Lloyd will soon catch up. Besides, adds Rajesh Gupta, Havells is open to raising Lloyd’s prices “step by step, at the right time in the future”.

What then might be the reasoning behind retaining Lloyd as an independent brand? Havells is perceived as an electrical brand, rather than a large appli-

ances brand. Lloyd, on the other hand, has spent time and money projecting itself as a recognizable white goods brand. Hence, it is better to maintain two separate brands, opine analysts. Managing two diverse brands and running separate teams isn’t new for Havells, either: after all, it did just that with Sylvania for close to a decade. So, Anil Rai Gupta will find ways to synergise his acquisitions. “Air-conditioner penetration is hardly 5% in India. As and when their (Lloyd’s) volume grows, they can start taking advantage of our resources.” That would align with Havells’ vision of getting deeper into homes. **OB**